Versacold Corporation 2000 Annual Report

Versacold CORPORATION IS THE LEADING CANADIAN SUPPLIER OF FROZEN AND REFRIGERATED STORAGE, DISTRIBUTION AND PROCESSING SERVICES TO THE NORTH AMERICAN FOOD INDUSTRY.

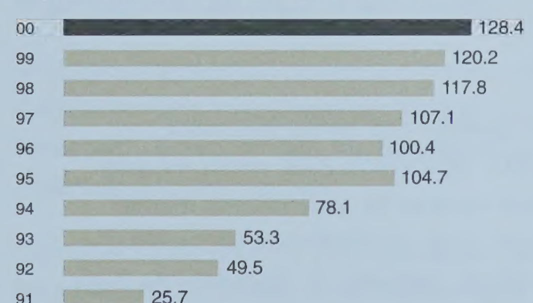
THE COMPANY OPENED IN 1946 AS B.C. ICE AND COLD STORAGE COMPANY, PROVIDING PROCESSING AND FROZEN WAREHOUSING SERVICES TO CANADA'S WEST COAST FISHERY. AS THE FROZEN AND REFRIGERATED FOOD INDUSTRY HAS GROWN AND EVOLVED, VERSACOLD HAS KEPT PACE WITH A STEADY EXPANSION IN SERVICES AND FACILITIES.

TODAY, VERSACOLD OPERATES 23 TEMPERATURE-CONTROLLED FACILITIES, AND THE ONLY INTEGRATED NATIONAL REFRIGERATED DISTRIBUTION NETWORK IN CANADA. ONE OF THE LARGEST COMPANIES OF ITS KIND IN NORTH AMERICA, VERSACOLD SERVES MORE THAN 1,700 CUSTOMERS, INCLUDING FOOD PRODUCERS AND PROCESSORS, WHOLESALE AND RETAIL DISTRIBUTORS, HOSPITALS, RESTAURANTS AND INSTITUTIONS.

2000 FINANCIAL HIGHLIGHTS

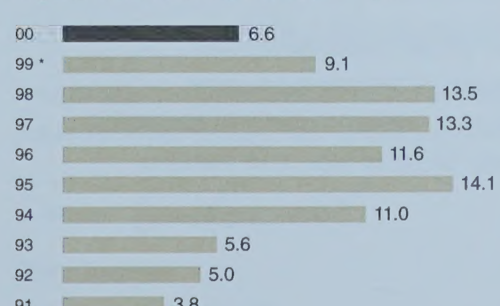
	2000		1999*	
	$ (thousands)	$ Per Share	$ (thousands)	$ Per Share
Operating Results				
Sales	128,442		120,209	
Profit contribution	31,765		30,253	
Net income	941	0.10	1,439	0.15
Cash Flow				
EBITDA	22,564		21,493	
Cash flow	6,616	0.68	9,110	0.94
Free cash flow	11,090	1.15	11,618	1.20
Capital spending	11,631		8,414	
Value				
Total assets	234,924		236,691	
Cash flow return on equity	12.7%		15.8%	
Debt				
Total long-term debt	126,901		130,723	
Debt to total capital	58.8%		59.2%	
Net income excluding special charges, restructuring and sale of assets	2,508		1,480	

Sales
(millions of dollars)
Compound Annual Growth Rate 1991 to 2000 19.6%

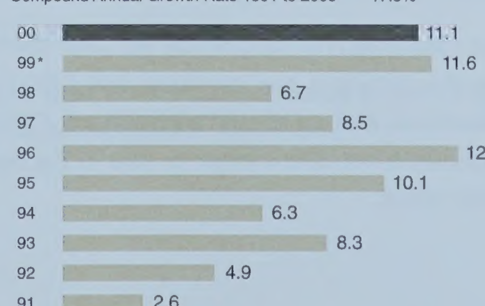


Net Income (excluding gain and loss on sale of assets)
(millions of dollars)
Compound Annual Growth Rate 1991 to 2000 1.8%

Cash Flow
(millions of dollars)
Compound Annual Growth Rate 1991 to 2000 6.3%



Free Cash Flow
(millions of dollars)
Compound Annual Growth Rate 1991 to 2000 17.5%



* Restated

VERSACOLD CORPORATION WAS CHALLENGED IN 2000 BY OPERATIONAL ISSUES THAT WERE GREATER THAN WE APPRECIATED AT THE OUTSET OF THE YEAR. WHILE THESE ISSUES WERE LARGELY CONTAINED WITHIN A FEW OF OUR CENTERS, THEIR IMPACT WAS FELT ACROSS OUR ORGANIZATION. AS THE YEAR UNFOLDED, DESPITE STEADY PROGRESS TOWARD IMPROVED PERFORMANCE, IT BECAME CLEAR THAT WE NEEDED TO ADDRESS SPECIFIC PROBLEMS.

In tandem with the corporate focus on operational excellence we announced in our 1999 annual report, we took a head-on approach to dealing with our operating issues. It wasn't an easy year, but we accomplished a great deal. Versacold now has better-defined priorities. Our operating practices reflect a more disciplined approach to the business. We are poised to move forward from a position of renewed strength and confidence.

FINANCIAL RESULTS

For the year ended December 31, 2000, Versacold generated revenues of $128.4 million, up seven per cent from 1999 revenues of $120.2 million. Direct profit contribution increased by $1.5 million to $31.8 million from $30.3 million in 1999. Cash flow from operations decreased by $2.5 million [$0.26 per share] to $6.6 million [$0.68 per share] from $9.1 million [$0.94 per share] in 1999. Net income decreased by $0.5 million to $0.9 million [$0.10 per share] compared to $1.4 million [$0.15 per share] in 1999. The net income recorded in 2000 is attributable primarily to the recovery of future income taxes resulting from a decrease in future federal basic income tax rates.

The year's financial results both reinforce the core strength of our business and reveal the extent of the difficulties we've experienced, which stem back as far as 1997. Versacold's 2000 revenues were the highest in the company's history, but cash flow was substantially reduced by expenditures related to prior years, special charges and restructuring costs. Without these costs, which totaled $3.9 million, 2000 cash flow was $1.09 per share. Excluding both these costs and the recovery of future income taxes, earnings were $0.23 per share.

A YEAR OF CHANGE

In January 2000, when I assumed my interim role as Chief Executive Officer, I anticipated that I would be turning over the reins to a new president and CEO by the end of the second quarter. In April, the Board determined that we should suspend our CEO search to evaluate available strategic alternatives. These included a possible merger or sale of the company. Our goal was, and remains, to maximize shareholder value.

With CIBC World Markets as our financial adviser, we undertook a formal, six-month evaluation process. This process generated expressions of interest from a number of parties but did not produce a viable strategic alternative for Versacold. We resumed our CEO search in October and, because of the ground work laid in the first quarter, were able to successfully conclude the search prior to year-end.

TOWARD OPERATIONAL EXCELLENCE

Throughout the year, we proceeded with initiatives aimed at capitalizing on the potential of each of our facilities and our national distribution network. We are working to put in place the right people, processes and tools to improve productivity and performance across our organization.

We still have a long way to travel on the road to operational excellence, but we've made a sound start. Our progress is reflected in our increased revenues and improved customer service. Over the past 12 months, customer claims have been reduced by one-third. Our turnaround time for resolving accounts receivables, claims and other customer issues has also been reduced significantly.

NEW LEADERSHIP STRENGTH

On January 29, 2001, with the company in far better shape operationally than it was just 12 months ago, Versacold was pleased to welcome Brent Sugden as our new president and CEO. Brent has a long and distinguished operations-based background in supply chain management, distribution and logistics. He brings demonstrated leadership and change management skills together with a keen understanding of the technological needs of our industry.

In closing, I extend the company's sincere appreciation to retiring directors Tony Arrell, Tom Smyth, Fred Wright and Yvan Bussières for their dedicated service. Mr. Arrell, Mr. Smyth and Mr. Wright joined Versacold's Board in 1993. Mr. Bussières became a director in 1996. We thank each of you for your contribution to the company.

On behalf of the Board, I offer special accolades to Versacold's employees across the country. As a group, you rallied with admirable vigour and tenacity over the past 12 months to the challenges created by an environment of continual change.

We also extend our appreciation to Versacold's customers, who are our partners in change, for the opportunity to contribute to the success of their businesses.

And, finally, we acknowledge our shareholders for their continued confidence in the company, and the potential of our people, our facilities and our national distribution capabilities.

Sam Gudewill

Sam Gudewill
Chairman of the Board

INTERVIEW WITH BRENT SUGDEN
president and chief executive officer

What attracted you to Versacold? There were a couple of reasons. First of all, with 23 facilities, a broad base of 1,700 customers and a national presence, Versacold has the critical mass to be an even greater force in the marketplace. The other factor that appealed to me is that the company has been operating below its potential for the last several years. This is clearly reflected in its share value. There is a huge upside available for the company through performance improvement.

Can you summarize your background in the industry? I have an operational orientation with 25 years experience in distribution logistics, working with food and other products in both the refrigerated and non-refrigerated sectors. I'm well-acquainted with both the warehouse and transport sides of the business. I've worked for both public and private companies, and I've worked in what you would call an in-house situation, as well as in third-party logistics.

What perspective do you bring as the company's new president and CEO? Our industry is highly competitive and you have to earn your place in the market. How well you operate your business every day will ultimately set the limit on where you can go. I believe that operational excellence is the engine for financial performance, which is what enables you to invest in state-of-the-art business tools and facilities, which in turn allows you to gain market dominance. I am prepared to start at the beginning of this chain knowing where it leads.

Does Versacold's change in leadership signal a change in the company's business strategy? No, but I'm working hard to make Versacold more responsive. Just as each customer has unique needs based on product type, handling characteristics, lead times – the list is long – we have 23 unique facilities, no two of which are exactly the same. A one-size-fits-all approach doesn't work. No one knows this better than the managers of our facilities. We have been busy moving some of the controls and accountabilities back to these managers, giving Versacold a more decentralized orientation.

We have also reworked corporate goals, objectives and Key Performance Indicators, the measures that Versacold has established to manage performance, to line them up more closely with the needs of our customers and shareholders.

What steps have you taken to support the diversity of Versacold's distribution centers? We've changed the reporting lines to reflect the decentralized nature of the business and to emphasize operational ownership. I now receive reports directly from the heads of our Pacific, Prairie and Eastern operating regions rather than a single report from a national operations head. Regional heads now have complete responsibility and accountability, and far greater control, over what they're doing. We have also decentralized the marketing of our business. Regional marketing people now report directly to regional heads. Transport is being handled similarly.

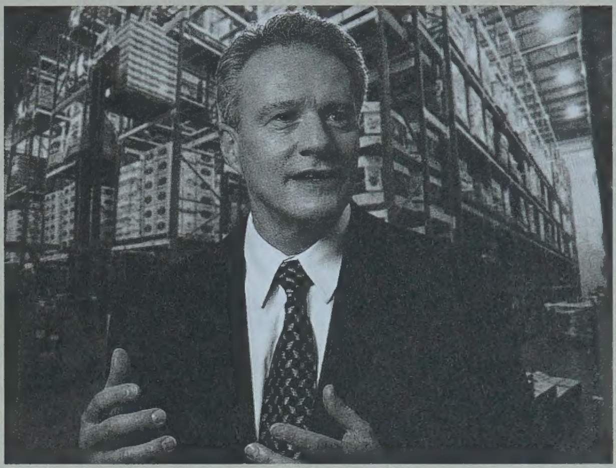
What other action have you taken since joining Versacold at the end of January 2001? When there is a change at the top, there is an early window of opportunity for sensible change. In fact, there is an

expectation of it. For reasons of fiscal restraint and in the interest of having a nimble, highly responsive organization, we have eliminated about $2 million in corporate salaries and benefits. We have also halved travel budgets and economy class has become the only class.

Do you plan to focus on specific aspects of the company's operations? Yes. Moving forward, we will be turning our attention to accuracy in filling customer orders, timeliness of inbound and outbound freight movement, labour planning – the single largest controllable cost in the business – as well as productivity tools, timeliness of delivery and employee turnover.

We will also be applying true costing to both the warehouse and transport segments of our business. We will be checking to see whether the services we're providing are aligned with the revenues we're receiving. We want to make sure that our effort and the level of service we offer are consistent with the revenues generated. In addition, we will be pushing up occupancy levels in our warehouses.

What do you feel are Versacold's greatest strengths? Within Versacold, there is a culture of change acceptance. In fact, our people embrace change. We don't have barriers to break down in order to move in new directions. We also have an incredible base of industry knowledge, a group of 'can do' people who know their business. There is a core of management and operations people who have virtually hundreds of years of combined experience. This intellectual capital is more valuable than anything else we have.



What are the greatest areas of opportunity for the company? Operational improvements can and will be a driver for much higher earnings. We have the broadest supply chain service menu in the frozen and refrigerated food industry, and we offer it on a nation-wide basis. That's a tremendous foundation for making this company more profitable.

What does the future hold for Versacold? We'll be marketplace leaders – in public refrigerated warehousing, in transport and in third-party logistics, where Versacold is partnered with the world-class Exel Logistics organization. Our first order of business is to give each of our three groups of stakeholders a competitive advantage… a service advantage to our customers, an earnings advantage to our shareholders and a preferred workplace to our employees. By staying on track with the steps we have already taken, I'm confident that we'll be very successful.

VERSACOLD'S INTEGRATED NETWORK OF 23 REFRIGERATED AND FROZEN FOOD DISTRIBUTION CENTERS PROVIDES APPROXIMATELY 56.6 MILLION CUBIC FEET OF REFRIGERATED STORAGE CAPACITY, AND A FULL RANGE OF TEMPERATURE-CONTROLLED DISTRIBUTION SERVICES. FROM THESE FACILITIES, THE COMPANY CAN SERVICE VIRTUALLY ANY ASPECT OF A CUSTOMER'S TEMPERATURE-CONTROLLED FOOD HANDLING NEEDS INCLUDING THE STORAGE AND MANAGEMENT OF RAW INGREDIENTS, PROCESSING AND FREEZING, INVENTORY MANAGEMENT, AND COMPLETE THIRD-PARTY LOCAL, REGIONAL AND NATIONAL DISTRIBUTION.

NATIONAL DISTRIBUTION

Network

- logistics program design
- blast freezing
- handling and cold storage
- cross docking
- order assembly
- inventory management
- shrink wrapping
- data entry and invoicing
- freight consolidations – Less Than Truck Load (LTL) services
- city deliveries and Direct Store Delivery (DSD) programs
- on-line inventory screen access
- Electronic Data Interchange (EDI)
- complete third-party distribution services

PACKAGED GOODS

- blast freezing
- handling and cold storage
- cross docking
- order assembly
- inventory management
- shrink wrapping
- stamping, stickering
- weight tallying
- container loading/unloading
- export documentation
- transportation services

HARVEST CROP SERVICES

Berries and Agricultural

- Individual Quick Freezing (IQF) - specialized conveyor through a blast tunnel
- case, pail or drum freezing, handling and storage
- trichinosis treatment
- repacking into totes or cartons
- boxing services
- quality control services
- truck or container loading for export or delivery
- export documentation
- transportation services

Fish & Seafood

- boat unloading
- Individual Quick Freezing (IQF) - roe herring and ground fish fillets
- brine freezing – herring/crab
- rack freezing – salmon
- handling and cold storage
- grading
- heading and washing
- glazing
- boxing
- inspection services
- container loading or unloading
- export documentation
- transportation services
- ice sales

Distribution Centers (storage capacity in millions of cubic feet)

●	National Distribution Network Hubs	Canada	Totals
▬	National Distribution Network	United States	Refrigerated storage capacity – 56.6
—	Distribution Gateways		Including dry storage, processing and office space – 63.1
----	Regional Distribution		

1. Vancouver Area
Harbour
2.73
Corpak
3.89
Cliveden
4.12
Derwent ●
2.25

2. Fraser Valley
Baker
3.41
Valley
1.72
Matsqui
1.00

3. Kamloops
Victoria
0.04

4. Lynden, Washington
Cascade
3.54

5. Edmonton
20th Street
1.37
Mount Lawn
0.75
127th Avenue
0.48

6. Calgary
Brandon
1.82
Ogden
1.90
Great Plains ●
4.10

7. Lethbridge
28th Street
1.30

8. Saskatoon
Patrick
0.25

9. Regina
Elliott
0.57

10. Winnipeg
Dawson
4.50
Jarvis
1.56

11. Chatham
Bothwell
0.84

12. Toronto Area
Walker ●
8.61

13. Montreal
Frigo ●
5.91

IN 2000, TO CREATE VALUE FOR CUSTOMERS AND SHAREHOLDERS, VERSACOLD LAUNCHED A CORPORATE FOCUS ON OPERATIONAL EXCELLENCE. WE IMPROVED OUR BUSINESS PROCESSES, INVESTED IN OUR PEOPLE AND EXPANDED OUR TECHNOLOGY CAPABILITIES. WE ALSO TURNED OUR ATTENTION TO THE RESOLUTION OF SOME FUNDAMENTAL OPERATING ISSUES IN AREAS SUCH AS CUSTOMER CLAIMS AND PALLET MANAGEMENT.

LAYING THE FOUNDATION FOR BETTER OPERATING PERFORMANCE

The past 12 months were difficult, but productive, for our company. The year's challenges came mostly from within, as we wrestled with operational issues that, although isolated to a few of our centers, were more deeply rooted than we realized. At the same time, Versacold was challenged by continued pressure from customers to reduce our costs and, to a lesser extent, by increased competition.

In 2000, we expected to see strong improvement in our operational performance, generated primarily through our National Distribution Network. This improvement did not materialize. On-going problems at our Walker Center in Toronto, our largest facility, again resulted in significantly under-utilized capacity.

found

Other parts of the network, specifically warehouse operations and harvest crops, continued to deliver solid performance. A particularly notable achievement was the effective management of unexpected, considerably increased volumes from both of our largest customers in Manitoba. We were also successful in re-acquiring a regional distribution contract that had been awarded to a competitor. Versacold subsequently assisted this customer in establishing a national presence.

A number of initiatives were introduced in 2000 to improve the performance of our network. One of the year's important undertakings was our corporate focus on operational excellence, and the initial progress we made toward this ultimate goal. To create value for our customers and shareholders, we improved our business processes, invested in our people and expanded our technology capabilities. We also turned our attention to the resolution of some fundamental operating issues in areas such as customer claims and pallet management.

ENHANCING SERVICE, QUALITY AND VALUE

At Versacold, we're working hard to provide more responsive customer service at a lower cost – and we're making good headway. In 2000, we progressed on-schedule with the implementation of an employee-driven best practices initiative called "Moving it Right." Through training, better planning and better communication, this initiative is giving our employees the information they need to do their job better.

During the year, we concentrated on "Moving it Right" through the roll-out of consistent, standard operating procedures (SOPs) at our four national distribution network hubs, as well as at two regional centers. Developed in 1999, these procedures are designed to support Versacold's integrated delivery of warehousing and transportation services. Each employee at all six centers received training customized to their individual responsibilities. A stand-alone, self-paced instructional program for new employees was also introduced and successfully piloted.

Versacold was recognized in 2000 by the Quality Council of BC for our introduction of SOPs. We were honoured to receive the Council's Bronze Award. Other indicators of our progress toward operational excellence include a 33 per cent reduction in our customer claims rate and a 25 per cent improvement in our outstanding days rate for accounts receivable.

PARTNERING WITH EMPLOYEES

Appreciating the impact of turnover on labour costs, Versacold continues to seek new ways of creating a better working environment for our people. Our investment in this area is generating measurable results. At one of our centers, where we piloted a spending account benefits program and wage progression plan for part-time employees in 2000, our turnover of part-time employees was reduced by two-thirds. The center's overall turnover rate was reduced by nearly 50 per cent.

Other successful initiatives included the company-wide rollout of an employee handbook that establishes standard terms, conditions and policies for hourly employees. We also expanded the peer review process we introduced for managers in 1999 to include supervisors. In addition, we launched a company Intranet which has already proven to be an extremely valuable internal communication vehicle for our company.

PUTTING NEW TECHNOLOGIES TO WORK

Versacold's business strategy is supported by a comprehensive information technology (IT) strategy. We continue to expand our systems capabilities to provide customers with better information access and to improve the quality of information available to manage our business on a daily basis.

In 2000, we implemented a new Electronic Data Interchange (EDI) service for our customers. We also reorganized our EDI capability to improve set-up time for our trading partners – from six weeks to two weeks – and to reduce transmission errors. As a result, Versacold achieved a perfect record in terms of error-free EDI transactions.

In the latter part of the year, we evaluated the warehouse management technologies that are now available to Versacold. In 2001, we will prepare for the installation of a new Warehouse Management System (WMS) by building a platform to more effectively integrate information across all our systems and by upgrading our existing order management and processing system.

Finally, we upgraded our computer network and servers to increase capacity and performance, and to prepare for the launch of a new software architecture strategy in 2002. This strategy is a building block in the development of our e-commerce strategy and a precursor to the creation of web-enabled customer access. We want to make it as easy as possible for our customers to do business with Versacold.

STRIVING TO CONTROL ENERGY COSTS

By nature, our business is energy-intensive. Keeping food products refrigerated or frozen requires a lot of electricity and managing our energy costs is a key priority. Versacold's success in this regard was most apparent in Alberta, where we channeled significant corporate resources to minimize the impact of energy deregulation on our customers. On January 1, 2001, Alberta became the first Canadian province to convert from a government-regulated power supply system to a deregulated market-based system. Increased demand driven by the province's vibrant economy, together with supply shortages and rapidly rising natural gas prices, triggered a three-fold increase in electricity costs.

In anticipation of higher prices, Versacold entered into longer-term power supply agreements in order to cap our cost increases. We also introduced programs to both reduce overall consumption and reduce consumption at peak demand periods, when prices are higher.

Across our network, we continued to implement capital upgrades to reduce energy consumption throughout 2000. These included a number of waste-heat recovery projects. Major energy efficiency retrofits were also completed on the refrigeration plants at Versacold's facilities in Lethbridge, Alberta; Lynden, Washington; and Montreal, Quebec. Our innovation in energy management was recognized during the year by several noted industry publications, including the Canadian Industry Program for Energy Conservation Newsletter and Plant Magazine. Versacold will continue to aggressively manage energy usage and costs.

OPTIMIZING OUR NETWORK

The optimization of our national distribution network remains an important long-term priority for Versacold. In 2000, as is reflected by our year-over-year revenue increase, we expanded our business within the network. However, the revenue growth we achieved was not manifest in our bottom line. In the year to come, we will continue to focus on the integration of our transport and warehouse operations in order to drive improved financial performance.

DELIVERING ON OUR POTENTIAL IN 2001 AND BEYOND

As we proceed towards operational excellence through 2001 and beyond, we will concentrate on managing and measuring our performance. Across our organization, greater personal ownership and responsibility for results will underpin operational excellence. Specific individuals at the site level have been made directly accountable for the basic building blocks of their business: customers, employees and operating results. Decentralized decision-making will enable us to respond more quickly to customer service issues. Increased emphasis on scorekeeping will enable us to track and improve our performance.

In keeping with our new, decentralized approach to managing our business, the application of best practices by Versacold employees will be reinforced by the managers of our 23 centers. Each of these facilities will operate on a more autonomous basis and performance will be measured against newly refined Key Performance Indicators (KPIs). These measures provide a framework for Versacold's performance management program.

Versacold now has very clearly defined accountability in place for results against 26 KPIs covering four areas: customer service, operating efficiency, financial results and customer results. Center management will be reporting on KPI results on a regular basis and targets for improvement will be established in each area.

At the same time, we will continue to focus on improving our bottom line through better labour cost management. Labour remains Versacold's single largest variable cost and a major area of potential for improvement. We will be using a number of labour productivity tools with an emphasis on better planning and scheduling.

ALIGNING OUR BUSINESS STRATEGY WITH CUSTOMER NEEDS

Through the year to come, we will concentrate on enhancing our performance through better management of our customer relationships. At each of Versacold's distribution facilities, we will be matching our capacities and capabilities with the needs of our customers so that we evolve toward a more optimal customer and product mix. To improve our profitability and realize the full potential for efficiencies within our multi-client environment, we must have the right relationships with the right customers.

As Canada's only national third-party provider of fully-integrated temperature-controlled distribution services, Versacold retains a sharp competitive edge. Our business strategy remains soundly supported by strong growth fundamentals in the refrigerated distribution sector of the food industry.

BUSINESS OF THE COMPANY

Versacold Corporation is Canada's only national supplier of public refrigerated warehousing and distribution services. It offers food industry customers a full range of temperature-controlled, integrated supply chain management services, including warehousing, food processing, inventory management, less-than-truckload transportation, warehouse-based distribution and direct-to-store distribution services. The company operates 23 warehouse and distribution facilities providing approximately 56.6 million cubic feet of refrigerated and frozen storage capacity in key Canadian markets and in Washington State.

During 2000, Versacold's revenues were bolstered by increased throughput at the company's Abbotsford, B.C. facility arising from a long-term supply agreement with Overwaitea Food Group and increased throughput at the company's Winnipeg facility. However, lower capacity utilization at Versacold's Walker facility in Toronto continued to have a significant, negative impact on results.

REVIEW OF OPERATIONS

Fiscal 2000 Compared to Fiscal 1999

($ millions except per share calculations)	2000	1999	Change
Revenue	$ 128.4	$ 120.2	6.8%
Direct profit contribution	31.8	30.3	5.0%
EBITDA	22.6	21.5	5.0%
Direct profit contribution margin	24.7%	25.2%	-0.5pts
Cash flow per share	0.68	0.94	-27.7%
Net income per share	$ 0.10	$ 0.15*	-33.3%

* Restated

Although fiscal 2000 revenue and direct profit contribution have increased in comparison to 1999, cash flow has decreased. This decrease is due primarily to expenses related to management's resolution of aged receivables and fees for an evaluation of the company's available strategic alternatives. Net income earned in 2000 is attributable primarily to the recovery of future income taxes resulting from a decrease in future federal basic income tax rates.

Revenue

For the 12 months ended December 31, 2000, revenue increased by 6.8% to $128.4 million from $120.2 million in 1999. This increase can be attributed to successful expansions undertaken in partnership with customers in 2000 and in prior years:

- The $10 million expansion and upgrade of the company's Baker facility in Abbotsford, B.C., completed during the 2000 fiscal year, provided three-quarters of the increase in revenue.
- The company's previously expanded Dawson facility in Winnipeg, contributed 17% of the revenue increase.
- Versacold's Lethbridge, Alberta facility, expanded in 1998 and again in 2000, contributed the balance. The two expansions increased capacity in Lethbridge by 46%.

The revenue increase was partially offset by a later than anticipated herring harvest and smaller share of the market.

As indicated in the chart below, over the last 10 years, Versacold's business has shifted away from the seasonal and cyclical commodities sector, increasingly focusing on the more stable packaged and other foods sector. This shift has facilitated a steady, year-over-year increase in revenues.

Direct Profit Contribution

Although revenues in 2000 exceeded those in 1999 and direct profit contribution increased by $1.5 million to $31.8 million from $30.3 million in 1999, the percentage of direct profit contribution decreased by 0.5 points to 24.7% from 25.2% in 1999. Overall, the increase in revenue is not proportionate to the increase in direct profit contribution.

The net change in direct profit contribution can be attributed to the following:

Consistent with the revenue increases at the company's Baker, Dawson and Lethbridge facilities, in aggregate, these facilities contributed approximately one-half of the increase in profit contribution over the previous year;

A number of issues relating to previous years, primarily at Versacold's Walker facility in Toronto, were resolved in the current year, resulting in approximately $1.4 million in charges.

To improve its profit contribution, the company has focused on continuing to improve its productivity and labour management practices.

Amortization

Amortization increased from 1999, as follows:

($ millions)	2000	1999
Capital assets	$ 6.8	$ 6.1*
Deferred charges	0.8	0.6
Goodwill	0.2	0.2
	$ 7.8	$ 6.9

* Restated

Amortization of capital assets increased $0.7 million as the net additions of capital assets plus assets under capital lease increased $3.2 million (38.1%) to $11.6 million from $8.4 million in 1999. In addition, the current year's capital assets amortization reflects a full year of amortization for the previous year's additions.

General and Administrative Expenses

General and administrative expenses increased $0.4 million over 1999 to $9.2 million. This increase is primarily attributable to the implementation of new standard operating procedures.

Interest on Long-Term Debt

Although the interest rate on the company's long-term debt was reduced in October 1999, the interest expense on this debt has remained relatively unchanged from the previous year due to higher debt levels.

Restructuring

Restructuring expenses relate primarily to the evaluation of the company's available strategic alternatives, which was concluded in October 2000. In addition, there were restructuring costs incurred in the re-alignment of Versacold's facility organization to support the company's new standard operating procedures.

Special Charges

Special charges reflect severance-related costs plus charges resulting from property tax reassessments related to previous years.

Other (Loss)/Income

The change in Other (Loss)/Income is primarily due to a one-time gain resulting from the demutualization of the company's life insurance carrier recognized in the 1999 fiscal year, versus short-term financing costs incurred in 2000.

Income Taxes

The effective tax rate of 36% reflects current federal and provincial income tax rates adjusted for manufacturing and processing tax credits. However, the current income tax expense includes the federal large corporations' capital tax, which does not vary with changes in income. As income decreases, the tax impact of the federal large corporations' capital tax will remain fairly constant, resulting in an overall increase in the effective tax rate. The 2000 future income tax recovery is a result of the decrease in the future basic federal tax rate. The basic federal tax rate for the 2000 fiscal year is 38% and will decrease to 31% by 2004. More details on the income taxes and tax rates are provided in the Notes to the Consolidated Financial Statements.

Net Income

At $0.9 million ($0.10 per share), net income was slightly below 1999 levels of $1.4 million ($0.15 per share). This decrease can be attributed primarily to charges related to the resolution of aged accounts receivable and the evaluation of the company's available strategic alternatives, offset by the future income tax recovery. Without these charges, and removing the effect of the 2000 future income tax recovery resulting from the decreasing future federal basic income tax rates, net income would be $2.2 million [$0.23 per share], or $0.8 million [$0.08 per share] higher than the previous year.

Cash Flow

Cash flow derived from operations in 2000 was $6.6 million ($0.68 per share), compared to $9.1 million ($0.94 per share) in 1999. The decrease in cash flow is attributable primarily to the $3.9 million of charges related to the resolution of aged accounts receivable, and special and restructuring charges. Without these charges, the adjusted net cash flow would be $10.5 million ($1.09 per share).

Management maintains the view that, due to the unique characteristics of the industry and the company, cash flow is a better measure of corporate performance than net income. Cash flow from operations represents the cash generated by the operations of the company after adjusting for non-cash items, such as amortization and future taxes.

As shown in the table below, the company remains in a position where cash flow is consistently higher than net income. In Canada, the company is not currently "cash" taxable and its sustaining capital expenditures are less than amortization.

($ millions)	2000	1999*	1998	1997	1996
Net Income	$ 0.9	$ 1.4	$ 4.0	$ 4.5	$ 1.6
Future income tax	(2.1)	0.7	2.4	3.1	1.4
(Gain) loss on sale of assets	–	0.1	(0.3)	(0.3)	0.1
Amortization	7.8	6.9	7.3	5.9	5.9
Special charges	–	–	–	–	2.6
Cash flow from operations	6.6	9.1	13.4	13.2	11.6
Changes in working capital	5.9	4.0	(4.9)	(3.2)	2.8
Sustaining capital expenditures	(1.4)	(1.5)	(1.8)	(1.5)	(1.9)
Free cash flow	$ 11.1	$ 11.6	$ 6.7	$ 8.5	$ 12.5

* Restated

Free cash flow is the cash available after adjusting cash flow from operations for working capital requirements and capital expenditures necessary to sustain capital assets employed in the business in good working condition. In effect, free cash flow represents the cash available to meet debt repayments and investment in expansion capital projects. In 2000, free cash flow decreased to $11.1 million ($1.15 per share) from $11.6 million ($1.20 per share). This decrease resulted primarily from special and restructuring charges.

Working capital represents the movement, year-over-year, of current assets and current liabilities. As a result of an aggressive action plan to address the timing of collections, accounts receivable has decreased significantly to $15.8 from $18.0 in 1999. The increase in accounts payable from $14.3 million in 1999 to $16.6 million in 2000 can be attributed to the management of accounts payable.

During the 2000 fiscal year, as in 1999, the company spent $1.4 million on sustaining capital.

LIQUIDITY AND CAPITAL RESOURCES

As the table below illustrates, the majority of the funding required for 2000 came from free cash flow.

The major expansion projects undertaken in the year included:

$6.2 million incurred to complete the expansion and upgrade of the company's Baker facility pursuant to a new long-term agreement with Overwaitea Food Group. This expansion is substantially completed at a cumulative cost of about $10 million.

$1.6 million incurred at the Lethbridge facility to upgrade the existing refrigeration equipment to increase production capacity. This investment was made in conjunction with a customer's requirements to meet its increased future demands.

($ millions)	2000	1999*
Sources		
Free cash flow	$ 11.1	$ 11.6
Issuance of long-term debt (including capital lease obligations)	3.1	123.3
Cash and bank indebtedness	3.3	(4.7)
	$ 17.5	$ 130.2
Uses		
Expansion capital	$ (10.2)	$ (6.9)
Repayment of long-term debt	(7.3)	(116.7)
Dividends	–	(1.9)
Deferred charges	(0.1)	(4.5)
Other	0.1	(0.2)
	$ 17.5	$ (130.2)

* Restated

During the year, the company utilized cash of $2.4 million (available at the start of the year) and $0.9 million of its operating line.

LONG-TERM DEBT

At year-end, Versacold was in breach of one of its financial loan covenants and has now reached an agreement in principle with its Canadian lenders that effectively eliminates this breach. The agreement includes amendments to certain covenants and the pricing.

Total long-term debt was $126.9 million, compared with $130.7 million in 1999. Consolidated long-term debt as a percentage of total long-term debt, future income tax liabilities and shareholders' equity is down marginally from 59.2% in 1999 to 58.8% in 2000. More details on the credit facilities and long-term debt are provided in the Notes to the Consolidated Financial Statements.

MANAGEMENT OUTLOOK

For the 2001 year, the company will continue to focus on creating a climate for operational excellence. The operational group will own and be accountable for its operational and financial results. Clear operational goals and key performance indicators with appropriate targets have been set. Operational performance will be tightly monitored and action taken as required to ensure Versacold delivers improved financial performance.

MANAGEMENT'S REPORT

The consolidated financial statements of Versacold Corporation have been prepared by the management and approved by the Board of Directors of the Company. Management is responsible for the preparation and presentation of the information contained in these financial statements and other sections of this Annual Report. The Company maintains appropriate systems of internal control, policy and procedures which provide management reasonable assurance that assets are safeguarded and the financial records are reliable and form a proper basis for preparation of financial statements.

The Company's independent auditors, KPMG LLP, have been appointed by the shareholders to express a professional opinion on the fairness of these consolidated financial statements. Their report is included below.

The Board of Directors ensures that management fulfills its responsibilities for financial reporting and internal control through an Audit Committee. This committee reviews the consolidated financial statements and reports to the Board of Directors. The auditors have full and direct access to the Audit Committee.

Sam Gudewill

Samuel H. Gudewill
Interim President and
Chief Executive Officer

Janice Comeau

Janice M. Comeau
Vice President
and Chief Financial Officer

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Versacold Corporation as at December 31, 2000 and 1999 and the consolidated statements of operations, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2000 and 1999 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.
As required by the Company Act (British Columbia), we report that, in our opinion, these principles have been applied, after giving retroactive effect to the change in methods of accounting for amortization and income taxes described in note 3 to the financial statements, on a consistent basis.

KPMG LLP

Chartered Accountants
Vancouver, Canada
March 23, 2001, except as to notes 6 and 7 which are as of May 25, 2001

CONSOLIDATED BALANCE SHEET

(Expressed in thousands of dollars)

December 31, 2000 and 1999		2000	1999 (restated - note 3)
ASSETS			
Current assets:			
Cash		$ –	$ 2,421
Accounts receivable		**15,772**	18,031
Prepaid expenses		**548**	1,213
		16,320	21,665
Advances		–	582
Capital assets	(note 4)	**212,569**	207,464
Goodwill and deferred charges	(note 5)	**6,035**	6,980
		$ 234,924	$ 236,691
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Bank indebtedness	(note 6)	**$ 923**	$ –
Accounts payable and accrued liabilities		**16,569**	14,322
Income taxes payable		**172**	123
Deferred revenue		**1,528**	1,465
Current portion of long-term debt	(note 7)	**11,386**	6,957
		30,578	22,867
Long-term debt	(note 7)	**115,515**	123,766
Future income taxes	(note 10)	**36,438**	38,439
Shareholders' equity:			
Share capital	(note 8)	**47,281**	47,281
Cumulative translation account		**366**	533
Retained earnings		**4,746**	3,805
		52,393	51,619
		$ 234,924	$ 236,691
Commitments	(note 13)		

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

Sam Gudewill

Samuel H. Gudewill
Director

F.R. Wright

Frederick R. Wright
Director

CONSOLIDATED STATEMENT OF OPERATIONS

(Expressed in thousands of dollars except per share calculations)

Years ended December 31, 2000 and 1999		2000	1999 (restated - note 3)
Revenue		$ 128,442	$ 120,209
Direct profit contribution		$ 31,765	$ 30,253
Expenses:			
Amortization		7,835	6,915
General and administrative expenses		9,201	8,760
Interest expense		11,629	11,721
Provincial capital taxes		432	472
Restructuring		1,149	–
Special charges		1,333	–
		31,579	27,868
		186	2,385
Other income (loss)		(568)	529
Income (loss) before income taxes		(382)	2,914
Income taxes (recovery)	(note 10)	(1,323)	1,475
Net income		$ 941	$ 1,439
Income per share	(note 2(g))	$ 0.10	$ 0.15

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

(Expressed in thousands of dollars)

Years ended December 31, 2000 and 1999		2000	1999 (restated - note 3)
Retained earnings, beginning of the period:			
As previously reported		$ 15,229	$ 15,617
Change in accounting for income taxes	(note 3(b))	(11,040)	(11,040)
Change in accounting for amortization	(note 3(a))	(384)	(276)
As restated		3,805	4,301
Dividends paid		–	(1,935)
Net income		941	1,439
Retained earnings, end of the period		$ 4,746	$ 3,805

See accompanying notes to consolidated financial statements.

(Expressed in thousands of dollars)

Years ended December 31, 2000 and 1999		2000	1999 (restated - note 3)
Cash provided by (used in):			
Operations:			
Net income		$ 941	$ 1,439
Items not involving cash:			
Amortization		7,835	6,915
Loss (gain) on disposal of capital assets		(30)	64
Future income taxes		(2,130)	692
Cash flow from operations		6,616	9,110
Changes in non-cash operating working capital		5,868	3,986
		12,484	13,096
Investments:			
Purchase of capital assets:			
Expansion capital		(7,096)	(6,936)
Sustaining capital		(1,394)	(1,478)
Proceeds on disposal of capital assets		31	22
		(8,459)	(8,392)
Financing:			
Dividends		–	(1,935)
Repayment of long-term debt		(7,306)	(116,739)
Issuance of long-term debt		–	123,259
Increase in deferred charges		(100)	(4,549)
		(7,406)	36
Changes in foreign currency denominated cash		37	(59)
Increase (decrease) in cash		(3,344)	4,681
Cash, beginning of year		2,421	(2,260)
Cash, end of year		$ (923)	$ 2,421
Cash flow from operations per share	(note 2(g))	$ 0.68	$ 0.94
Supplementary information:			
Interest paid		$ 11,312	$ 11,519
Income taxes paid		665	755
Non-cash transactions:			
Acquisition of assets under capital leases		3,141	–

See accompanying notes to consolidated financial statements.

(Tabular amounts expressed in thousands of dollars)
Years ended December 31, 2000 and 1999

1. OPERATIONS:

The Company is incorporated under the laws of the Province of British Columbia. Its principal business activities include warehousing, freezing, processing and distributing food.

2. SIGNIFICANT ACCOUNTING POLICIES:

(a) Consolidation:

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. All significant inter-company accounts and transactions have been eliminated.

(b) Capital assets:

Capital assets are stated at cost. Amortization is provided over the estimated useful lives using the following methods and annual rates:

Asset	Basis	Rate
Buildings	Sinking fund	*
Buildings (note 3(a))	Straight-line	35 years
Processing equipment	Straight-line	5%
Portable warehouse equipment	Declining balance	20%
Automotive equipment	Declining balance	30%
Leasehold improvements	Straight-line	10%
Office, furniture and equipment	Declining balance	20%
Computer hardware	Straight-line	33.3%
Computer software	Straight-line	20%

* The Company utilizes the sinking fund method of amortization for all buildings used in Canadian Operations, which provides for an amortization charge of a fixed annual amount increasing at the rate of 5% per annum over a period of 35 years.

(c) Goodwill:

Goodwill is recorded at cost less accumulated amortization and is being amortized on a straight-line basis over 20 years. On an ongoing basis, management reviews the valuation of goodwill, taking into consideration any events or circumstances which might have impaired the fair value. Goodwill will be written down to fair value when declines in value are considered to be other than temporary.

(d) Deferred financing costs:

Deferred financing costs are being amortized over the original term of the related debt facility.

(e) Deferred revenue:

Deferred revenue represents amounts for future services that are not recognized in income until the service is provided.

(f) Foreign currency translation:

The Company's wholly owned United States subsidiary is considered to be a self-sustaining foreign operation. Accordingly, its assets and liabilities are translated into Canadian dollars at the exchange rate in effect at the balance sheet date, and its revenues and expenses are translated into Canadian dollars at the weighted average exchange rate for the year. Gains or losses on translation are deferred as a separate component in shareholders' equity.

(g) Income and cash flow from operations per share:

Income and cash flow from operations per share have been calculated based on the weighted average number of common shares outstanding during the years presented. Cash flow from operations as presented is before changes in non-cash operating working capital.

Fully diluted per share amounts are not presented as the effect of outstanding stock options are anti-dilutive.

(h) Derivative financial instruments:

The Company uses derivative financial instruments to manage risks in interest rates. All such instruments are only used for risk management purposes and are designated as hedges of specific debt instruments and are not for trading or other speculative purposes. The counterparties to these contracts are major financial institutions. The Company accounts for these financial instruments as hedges and as a result, the carrying values of the financial instruments are not adjusted to reflect their current market value. The net receipts or payments arising from financial instruments relating to interest are recognized in interest expense on an accrual basis.

(i) Use of estimates:

The preparation of the financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates. Significant areas requiring the use of management estimates relate to the determination of the net collectible amount of accounts receivable, the provision for claims, and the useful life of capital assets.

(j) Stock-based compensation:

The Company has a stock based compensation plan, which is described in note 8. No compensation expense is recognized for this plan when stock options are granted. Any consideration paid by employees on exercise of stock options is credited to share capital.

(k) Future income tax:

Income taxes are accounted for under the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities, and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that enactment or substantive enactment occurs.

(l) Cash:

Cash consists of cash less cheques issued in excess of cash on deposit.

3. CHANGE IN ACCOUNTING POLICY:

(a) Amortization:

Prior to 2000, the Company utilized the sinking fund method of amortization for all its buildings, which provided for an amortization charge of a fixed annual amount increasing at the rate of 5% per annum over a period of 35 years.

In 2000, the Company changed to the straight-line basis of amortization for the portion of these buildings that is used in the US operations and continues to use the sinking fund method to amortize buildings used in the Canadian operations.

As a result of this change, opening retained earnings as at January 1, 2000 decreased by $384,000 (January 1, 1999 decreased by $276,000). For the year ended December 31, 2000, the effect is to increase amortization expense in 2000 by $180,000 (1999 - $173,000) and reduce the future income tax expense by $68,000 (1999 - $65,000) from what would have been determined under the previous policy.

(b) Future income tax:

Effective January 1, 2000, the Canadian Institute of Chartered Accountants (CICA) changed the accounting standards relating to accounting for income taxes. The CICA's new standard of accounting for income taxes adopts the liability method of accounting for future income taxes. The liability method is described in note 2(k). Prior to adoption of this new accounting standard, income tax expense was determined using the deferral method.

The Company retroactively adopted the new accounting standard. The cumulative effect of this change was $11,040,000 as of January 1, 2000 ($11,040,000 as of January 1, 1999) and is reported separately as a restatement of the opening balance of retained earnings for the years ended December 31, 2000 and 1999.

There is a corresponding increase, at the start of these periods, in the future income tax liability, formerly presented as deferred income taxes.

The change to the liability method of accounting for future income taxes has no effect on the previously calculated 1999 deferred income tax expense because the $11,040,000 adjustment relates to differences that arose prior to 1999.

4. CAPITAL ASSETS:

2000	Cost	Accumulated amortization	Net book value
Land	$ 17,061	$ –	$ 17,061
Buildings	202,537	28,059	174,478
Equipment	30,880	14,295	16,585
Leaseholds	254	184	70
Construction in progress	521	–	521
Equipment held under capital lease	8,488	4,634	3,854
	$ 259,741	$ 47,172	$ 212,569

1999	Cost	Accumulated amortization	Net book value
Land	$ 17,043	$ –	$ 17,043
Buildings	190,715	24,295	166,420
Equipment	29,368	11,562	17,806
Leaseholds	223	156	67
Construction in progress	4,995	–	4,995
Equipment held under capital lease	5,306	4,173	1,133
	$ 247,650	$ 40,186	$ 207,464

At December 31, 2000 the Company estimated costs to complete construction in progress to be $1,450,000 (1999 - $4,300,000).

5. GOODWILL AND DEFERRED CHARGES:

	2000	1999
Goodwill	$ **4,489**	$ 4,489
Deferred financing costs	**4,643**	4,581
Other deferred charges	**150**	32
	9,282	9,102
Accumulated amortization	**3,247**	2,122
	$ **6,035**	$ 6,980

6. CREDIT FACILITIES:

The Company has available a committed operating line of credit for up to $8 million (1999 - $10 million), bearing interest at prime plus 0.75% per annum. Subsequent to the year-end, as part of the Canadian debt renegotiations outlined in note 7, the interest rate on the operating line of credit was amended to prime plus 3%. At December 31, 2000, $7.3 million (1999 - $3.3 million) was used to secure letters of credit, which was subsequently released on March 20, 2001. The Company did not provide further letters of credit to lenders in March 2001. Security provided for these credit facilities is an assignment of trade accounts receivable.

7. LONG-TERM DEBT:

		2000		1999
Secured term loan, bearing interest at 8.87% per annum, repayable in monthly blended installments of $897,400, final principal due October 21, 2004	$	**86,416**	$	89,510
Loan, bearing interest at six month LIBOR plus 1.60% per annum, fixed every six months, interest payable monthly and principal repayments of $290,204 (U.S. $194,000) payable annually, final principal due December 1, 2005		**5,527**		5,600
Revolving term loan, bearing interest at a base rate of LIBOR, prime or bankers acceptance at the Company's option plus a premium ranging from 0.50% - 3.00% depending on the Company's performance and the type of base rate. The debt is repayable on a quarterly basis with the final principal due December 31, 2003		**27,650**		30,000
U.S. $2.5 million revolving term loan, bearing interest at the rate of LIBOR plus 1.85% or U.S. prime less 0.75%, at the Company's option, final principal due November 1, 2001		**3,749**		3,608
Capital lease obligations		**2,987**		1,245
Bond forward gain		**572**		760
		126,901		130,723
Current portion		**11,386**		6,957
	$	**115,515**	$	123,766

In May 2001, the Company and its lenders agreed in principle to amend two of its long-term debt agreements. The proposed amendments to the loan agreements include amendments to certain financial covenants, a key man covenant, a change in pricing and a change in maturity date for the revolving loan facility.

The lenders have agreed as part of the new arrangements to waive their rights from covenant violations at December 31, 2000 and March 31, 2001. The renegotiated terms of the lending agreements restricts the Company from making any corporate distributions.

The renegotiated secured term loan will bear interest at 10.87% with blended monthly installments increasing to $993,158 on July 21, 2001 and reduced to $870,418 on January 21, 2002. The Company has agreed to repay a portion of the debt on a pro-rata basis from proceeds of a contemplated asset sale.

The renegotiated revolving term facility will bear interest at prime plus 4%. The quarterly repayment terms will remain unchanged, however the final repayment will be moved to January 1, 2003 from the original December 31, 2003 date.

The interest rates on the secured term loan and revolving term facility may be reduced depending on the Company's performance.

Finalization of the modifying lending agreements is subject to review of the final documentation by all parties.

The secured term loan is secured by the following:

(a) $220,000,000 in demand debentures issued under a trust indenture providing for a principal amount of up to $220,000,000 creating a fixed and floating charge on all assets owned by the Company and certain subsidiaries; and

(b) an assignment of rents due to certain subsidiaries.

The revolving term loan of $27,650,000 and the committed operating line of credit are secured by $80,000,000 in demand debentures issued under a trust indenture providing for a principal amount of up to $80,000,000 creating a fixed and floating charge on all assets owned by the Company and certain subsidiaries.

The secured term loan of $86,416,000 and the $27,650,000 revolving term loan contain provisions whereby Versacold is required, in the event of a change of control as defined within the facilities, to prepay all or any portion of the loans outstanding at the request of the lenders.

The terms of the financing facilities also restrict distributions to a maximum of $1,000,000 to any one senior officer of the Company for the purpose of acquiring common shares of the Company and accommodating relocation expenses.

The loan totaling $5,527,000 (U.S. $3,686,000) and the revolving term loan totaling $3,749,000 (U.S. $2,500,000) are repayable in U.S. dollars. The loans are secured by a first deed of trust on all the assets and property owned by a subsidiary and an assignment of leases and rents of that subsidiary. To fix the LIBOR interest rate risk on the $5,527,000 (U.S.$3,686,000) loan, the Company entered into an interest rate swap contract with a notional amount of U.S.$3,686,000 which entitles the Company to receive interest at floating rates on the notional amount and fixes the rate exposure at 6.79% until August 1, 2005. The net interest receivable or payable under the contract is settled monthly with the counterparty, which is a major financial institution.

To fix the base interest rate risk (excluding the interest premium) on $15,000,000 of the revolving term loan, the Company has entered into an interest swap contract with a notional amount of $15,000,000 which entitles the Company to receive interest at floating rates on the notional amount and fixes the base rate at 6.03% until June 29, 2001. The net interest receivable or payable under the contract is settled quarterly with the counterparty, which is a major financial institution.

The bond forward gain represents the unamortized proceeds of a hedge transaction entered into for the term loan facility. The gain has the effect of reducing the interest on the secured term loan from 8.87% to 8.58% until December 2003.

Based upon the renegotiated Canadian secured debt as at December 31, 2000, the aggregate required repayments of principal on secured debt due within the next five years are as follows:

2001	$ 11,386
2002	22,323
2003	21,328
2004	67,250
2005	4,614
	$ 126,901

8. SHARE CAPITAL:

(a) Authorized:

The authorized share capital of the Company consists of 50,000,000 common shares, without par value, and 20,000,000 preferred shares without par value, issuable in series.

(b) Issued and outstanding:

As at December 31, 2000, the Company has issued 9,670,605 (1999 – 9,670,605) common shares at a stated capital of $47,281,000 (1999 - $47,281,000).

(c) Share purchase options:

The Company has a share purchase option plan approved by the shareholders that allows it to grant options, subject to regulatory terms and approval, to its employees, officers, directors and non-employees. The exercise price of each option can be set equal to or greater than the closing market price of the common shares on the Toronto Stock Exchange (TSE) on the day prior to the date of the grant of the option. Options have a maximum term of 10 years and terminate as follows: 30 days following the resignation of the optionee, 30 days following the date of dismissal without cause, the date of dismissal with cause, six months after death and 30 days after the optionee attains the mandatory retirement age. Vesting of options is done at the discretion of the Board at the time the options are granted.

Pursuant to two Directors, Officers and Employees Stock Option Plans, the Company has reserved 193,000 common shares under the November 1, 1993 plan and 718,860 common shares under the March 31, 1995 plan.

The continuity of share purchase options is as follows:

	2000 Shares	2000 Weighted average exercise price	1999 Shares	1999 Weighted average exercise price
Outstanding, beginning of year	**782,500**	**$ 10.00**	726,500	$ 10.13
Granted	–	–	95,000	9.00
Cancelled	**(445,000)**	**10.23**	(39,000)	9.93
Outstanding, end of year	**337,500**	**$ 9.70**	782,500	$ 10.00
Contractual remaining life (yrs)	**3.3**		4.7	
Range of exercise prices	**$ 9.00 - $ 12.00**		$ 9.00 - $ 12.00	
Vested options	**239,717**	**$ 9.34**	437,000	$ 9.83

9. PENSION PLAN:

The Company has a defined contribution registered retirement savings plan covering substantially all employees. The Company also offers certain executive officers a choice between a defined contribution plan or a defined benefit pension plan. The pension expense for the year was $347,255 (1999 - $192,403).

10. INCOME TAXES:

Earnings (loss) before income taxes are as follows:

	2000	1999
Canadian	**$ (1,572)**	$ 1,720
Foreign	**1,190**	1,194
	$ (382)	$ 2,914

The provision for (recovery of) income taxes consists of the following:

	2000	1999
Current income tax expense:		
Canadian large corporation tax	**$ 433**	$ 458
Foreign	**374**	325
	807	783
Future income tax expense:		
Canadian	**(2,220)**	610
Foreign	**90**	82
	(2,130)	692
Income tax expense (recovery)	**$ (1,323)**	$ 1,475

The provision for (recovery of) income taxes consists of the following:

	2000	1999
Provision for taxes	$ **(143)**	$ 1,093
Increase resulting from:		
Large corporations tax	**433**	458
Non-taxable dividend	–	(181)
Lower effective rate on income of foreign subsidiary	**(43)**	(42)
Adjustment to future tax assets and liabilities for substantively enacted changes in tax laws and rates	**(1,300)**	–
Other	**(270)**	147
Income taxes expense (recovery)	$ **(1,323)**	$ 1,475

In December 2000 the Federal Government introduced legislation to the House of Commons to reduce the general corporation tax rate by 7% between January 1, 2001 and January 1, 2004. As this legislation is considered substantively enacted under generally accepted accounting principles as at December 31, 2000, the $1,300,000 benefit of the new tax rates to reduce the Company's future income tax liability has resulted in a credit to the statement of operations.

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities at December 31, 2000 and 1999 are presented below:

	2000	1999
Future tax assets:		
Non-capital loss carryforward	$ **14,462**	$ 16,153
Total gross future tax assets	**14,462**	16,153
Future tax liabilities:		
Property, plant, equipment and intangible assets	**41,934**	45,691
Deferred partnership income	**8,966**	8,901
Total gross future tax liabilities	**50,900**	54,592
Net future tax liabilities	$ **36,438**	$ 38,439

The tax effect of temporary differences that give rise to future income tax expense are as follows:

	2000	1999
Losses carryforward	$ **1,691**	$ 1,328
Partnership income deferral	**65**	994
Property, plant, equipment and intangible assets	**(3,886)**	(1,630)
Net future income tax expense (recovery)	$ **(2,130)**	$ 692

For Canadian tax purposes, the Company has approximately $40.2 million of non-capital losses for income tax purposes available at December 31, 2000 to reduce taxable income of future years. The full benefit of these losses has been recorded in prior years.

These losses will expire as follows:

2001	$ 4,589
2002	10,569
2003	9,587
2004	5,634
2005	1,026
2006	2,016
2007	6,746
	$ 40,167

11. FINANCIAL INSTRUMENTS:

Risk management activities:

The Company has entered into an interest rate swap contract as described in note 7 to reduce its exposure to fluctuations in interest rates.

Fair values:

The carrying values of current financial assets and liabilities approximate their fair values due to the relatively short periods to maturity of the instruments.

The fair value of the Company's long-term debt approximates its carrying amount due to the renegotiation on May 25, 2001, as discussed in note 7.

12. RELATED PARTY TRANSACTIONS:

During the year ended December 31, 2000, the Company included in restructuring expenses payment to two directors or companies controlled by them in the amount of $363,500 (1999 – nil). As at December 31, 2000, $310,000 (1999 – nil) payable to directors or companies controlled by them is included in accounts payable and accrued liabilities.

13. COMMITMENTS AND CONTINGENCIES:

(a) Lease commitments:

A subsidiary of the Company rents land and a cold storage facility under long-term operating leases that expire in 2010 and 2011, respectively. The land lease is subject to renegotiation of rent every three to ten years. In addition, various other contractual operating lease obligations have been included in the schedule below.

At December 31, 2000, the future minimum operating lease payments for the next five years and in aggregate thereafter are as follows:

2001	$ 2,744
2002	2,631
2003	2,116
2004	1,808
2005	1,682
Thereafter	9,374
	$ 20,355

(b) Electricity price swap:

During the current year, the Company entered into two electricity price swap contracts which became effective January 1, 2001.

Under these contracts, the Company is committed to a fixed price for five megawatt hours of electricity in Alberta for five years to December 31, 2005. The total commitment is for approximately $18 million of electricity based on fixed notional megawatt hours, which closely approximates the Company's current annual electricity usage. As a result, the Company plans to account for payments and receipts as a hedge and adjust the cost of its electricity purchases.

Under the terms of the contract, each party has provided the other with a $5 million credit limit. If the net present value of either party's exposure exceeds $5 million, then that party will be required to post a letter of credit in the amount in excess of the $5 million credit limit.

Due to the unpredictable nature of the market electricity prices in Alberta, a fair value for these five year commitments is not reliably determinable at this time.

14. SEGMENTED INFORMATION:

Versacold has two operating segments being the National Distribution Network, consisting of four distribution hubs, Montreal, Toronto, Calgary and Vancouver, and Warehouse Operations, which includes the remaining centres. The two operations are managed separately to ensure focus on their key strategies. Each segment provides similar products and services, serves similar customers and has similar cash flows and economic characteristics. These segments have been aggregated for financial disclosure purposes.

15. JOINT VENTURE INTEREST:

The Company has a 50% joint venture interest. A summary of unaudited financial information for the joint venture operation at December 31, 2000 follows:

	2000	1999
Assets:		
Current assets	$ **1,136**	$ 1,120
Capital assets, net of accumulated amortization of $74	**386**	411
	$ **1,522**	$ 1,531
Liabilities:		
Current liabilities	$ **922**	$ 611
Due to Versacold Group	**599**	738
Joint venture participant's equity	**1**	182
	$ **1,522**	$ 1,531
Revenue	$ **12,185**	$ 1,210

16. COMPARATIVE FIGURES:

Certain comparative figures have been reclassified to conform with the current year's presentation.

Years ended December 31
(thousands of dollars, except per share calculations)

	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
Key Ratios										
Value Ratios										
Cash flow per share (CFPS $)	**0.68**	0.94	1.40	1.37	1.21	1.45	1.28	1.13		
Net income per share (EPS $)	**0.10**	0.15	0.42	0.47	0.16	0.68	0.55	0.85		
Free cash flow per share ($)	**1.15**	1.20	0.70	0.88	1.30	1.04	0.73	1.67		Note 1
Book value per share ($)	**5.42**	5.34	6.57	6.34	6.07	6.05	6.10	5.35		
Price cash flow ratio (based on year-end price)	**6.99**	7.71	7.07	8.36	6.49	7.24	8.01	9.73		
Cash flow return on equity (%)	**12.70**	15.80	21.60	22.20	19.80	25.30	27.80	47.70		
Net income return on equity (%)	**1.80**	2.50	6.50	7.60	2.70	11.80	12.00	35.70		
Dividends per share ($) (note 2)	–	0.20	0.20	0.20	0.10	–	–	–		
Proportionate to Revenue										
Direct profit contribution (%)	**24.7**	25.2	29.5	31.5	33.6	31.7	30.1	31.6	30.6	47.1
EBITDA (%) (note 3)	**17.6**	17.9	22.2	23.9	25.1	25.3	23.6	24.4	24.5	36.1
General and administrative (%)	**7.2**	7.3	7.3	7.6	8.5	6.5	6.6	7.1	6.1	11.1
Debt										
Long-term debt/total capital (%)	**58.8**	59.2	58.1	59.1	59.6	60.1	64.8	56.2	82.4	85.4
Debt service ratio	**1.10**	1.45	1.60	1.60	1.60	1.79	1.75	–	–	–
Operating Results										
Revenue ($)	**128,442**	120,209	117,765	107,073	100,355	104,687	78,123	53,302	49,490	25,728
Direct profit contribution ($)	**31,765**	30,253	34,764	33,707	33,704	33,191	23,550	16,831	15,139	12,127
General and administrative ($)	**9,201**	8,760	8,570	8,158	8,530	6,762	5,131	3,801	3,030	2,851
EBITDA	**22,564**	21,493	26,194	25,549	25,174	26,429	18,447	13,030	12,109	9,276
Net income before special charges, restructuring and sale of assets ($)	**2,508**	1,480	3,854	4,370	4,204	5,563	4,768	3,000	1,483	822
Net income ($)	**941**	1,439	4,026	4,548	1,568	6,604	4,768	4,225	1,483	822
Cash flow ($)	**6,616**	9,110	13,477	13,262	11,616	14,123	10,987	5,647	5,009	3,750
Free cash flow ($) (note 4)	**11,090**	11,618	6,720	8,497	12,468	10,140	6,306	8,309	4,918	2,560
Annualized Rates of Growth										
Revenue (%)	**6.8**	2.1	10.0	6.7	(4.1)	34.0	46.6	7.7	92.4	7.7
Direct profit contribution (%)	**5.0**	(13.0)	3.1	–	1.5	40.9	39.9	11.2	24.8	3.2
Net income before special charges, restructuring	**69.5**	(61.6)	(11.8)	4.0	(24.4)	16.7	58.9	102.3	80.4	(48.8)
Cash flow from operations (%)	**(27.4)**	(32.4)	1.6	14.2	(17.8)	28.5	94.6	12.7	33.6	(22.7)

Years ended December 31
(thousands of dollars, except per share calculations)

	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
Balance Sheet										
Property, plant and equipment ($)	**212,569**	207,464	205,642	203,834	181,909	177,278	170,671	61,781	50,693	50,577
Additions to property, plant and equipment										
Sustaining ($)	**1,394**	1,478	1,833	1,546	1,940	1,892	1,498	477	601	450
Expansion ($)	**10,237**	6,936	10,433	26,285	9,170	9,063	15,307	6,039	604	4,153
Goodwill and deferred charges	**6,035**	6,980	3,252	4,219	4,474	7,213	7,901	4,057	4,392	5,307
Total assets ($)	**234,924**	236,691	229,168	223,123	210,499	209,278	207,617	98,745	65,131	63,979
Long-term debt ($)	**126,901**	130,723	124,552	123,381	117,099	118,254	125,136	50,566	49,220	49,902
Future income tax	**36,438**	38,439	26,539	24,142	21,076	19,631	15,534	12,809	13,474	12,730
Shareholders' equity ($)	**52,393**	51,619	63,452	61,183	58,391	59,032	52,473	26,672	(2,994)	(4,189)
Working capital ratio	**0.61**	0.95	1.07	0.81	1.31	1.51	1.10	3.09	1.37	1.11
Share Information										
Weighted average number of shares outstanding (note 5)	**9,671**	9,671	9,661	9,646	9,625	9,756	8,603	4,988	Note 1	
Share price										
High ($)	**7.94**	9.80	12.40	12.30	10.50	12.00	12.63	11.00		
Low ($)	**4.27**	6.75	9.00	6.65	7.85	9.13	9.25	9.00		
Y/E closing ($)	**4.75**	7.25	9.90	11.45	7.85	10.50	10.25	11.00		
Cash flow multiple (based on year-end price)	**6.99**	7.71	7.07	8.36	6.49	7.24	8.01	9.73		
Daily average volume traded	**2,807**	791	661	8,366	12,010	2,550	6,154	5,068		
Other Information										
Number of facilities	**23**	23	23	24	26	28	28	13	12	12
Refrigerated storage capacity (in millions of cubic feet)	**56.6**	56.6	57.8	53.6	47.0	48.2	44.4	22.1	n/a	n/a

Note 1 Prior to December 1993, Versacold Corporation was a private company.
Note 2 Effective January 1, 2000, the dividends were cancelled indefinitely.
Note 3 "EBITDA" means earnings before interest, taxes, amortization and other income. EBITDA excludes sales of assets in 1993, 1995, 1997, 1998 and 2000; special charges in 1996 and 2000; and restructuring charges in 2000.
Note 4 The 1998 free cash flow has been restated to adopt the new presentation of the cash flow statement.
Note 5 The 1999 summary information has been updated to reflect the change in accounting policy with respect to buildings and refrigeration equipment used in the U.S. operations and the change in accounting policy to future income taxes.
Note 6 The number of shares reflected for the years prior to 1993 have been calculated based on the percentage interest held by the existing shareholders at the time of the public offering.

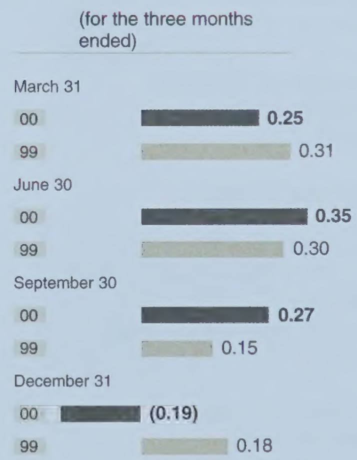
Year ended December 31, 2000
(thousands of dollars, except per share calculations)

	1st Quarter three months ended March 31, 2000	2nd Quarter three months ended June 30, 2000	3rd Quarter three months ended Sept. 30, 2000	4th Quarter three months ended Dec. 31, 2000	Full Year Total 2000
Sales	$ 30,212	$ 31,644	$ 33,892	$ 32,694	$ 128,442
Direct Profit Contribution	8,191	8,536	8,526	6,512	31,765
Cash flow	2,435	3,345	2,617	(1,781)	6,616
Cash flow per share	0.25	0.35	0.27	(0.19)	0.68
Net Income	293*	783*	648	(783)	941
Earnings per share	0.03*	0.08*	0.06	(0.07)	0.10
Free cash flow	223	3,589	1,615	5,663	11,090
Free cash flow per share	0.02	0.37	0.17	0.59	1.15

Sales

Earnings per share

Cash flow per share



* Restated

BOARD OF DIRECTORS

H. Anthony Arrell [1 *]
Chairman and
Chief Executive Officer
Burgundy Asset
Management Ltd.

Yvan Bussières [2 *]
Vice President of Distribution
Alimentation Couche-Tard Inc.

Samuel H. Gudewill [2, 3]
Chairman of the Board
Versacold Corporation
Chief Executive Officer
Innovex Equities Corporation

Joseph S. Houssian [3]
Chief Executive Officer
Intrawest Corporation

Thomas J. Longworth [1]
Vice President
British Columbia
Telus, Enterprise Solutions Inc.

Saunder N. Sheinin [3]
Managing Partner
Sheinin & Co.

Thomas D. Smyth [2 *]
Former Chairman
President and CEO
H.J. Heinz Company of
Canada Ltd.
Operator of Saugeen Acres
Ranch

H. Brent Sugden
President and
Chief Executive Officer
Versacold Corporation

Frederick R. Wright [1 *]
Partner
Capital West Partners

1 Audit Committee Member
2 Human Resources Committee Member
3 Corporate Governance Committee Member

* Retired from Board subsequent to year-end.

EXECUTIVE OFFICERS

Samuel H. Gudewill
Chairman of the Board

H. Brent Sugden
President and
Chief Executive Officer

Janice M. Comeau
Vice President and
Chief Financial Officer

Robert A. Lewarne
Senior Vice President
Warehouse Operations

Bruce McKay
Secretary

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Cascade Center, Lynden
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KPMG LLP
Vancouver, British Columbia

SHARES LISTED

The Toronto Stock Exchange
under the trading symbol "ICE".

SHAREHOLDER RELATIONS

Registrar and Transfer Agent:

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Services Inc.
Vancouver, British Columbia
Calgary, Alberta
Toronto, Ontario
Montreal, Quebec
-or-
D. Chao
604.255.4656
email: dchao@versacold.com

ANNUAL GENERAL MEETING

The Annual General Meeting
of the Company will be held at
The Fairmont Waterfront Centre Hotel,
900 Canada Place Way,
Vancouver, British Columbia
at 11:00 a.m. on July 11, 2001.

VersaCold

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WAREHOUSE AND DISTRIBUTION SERVICES